New Jersey Commerce, Economic Growth & Tourism Commission
FY 2006 Budget Review
OLS Discussion Points

1) The Business Employment Incentive Program (BEIP) provides grants to businesses that relocate or expand in New Jersey and create new jobs in the process. P.L. 2003, c. 166 modified the eligibility criteria for BEIP grants and authorized the issuance of State contract bonds by the EDA as a source of BEIP funding. In December 2003, the issuance of $301 million in bonds was approved by the Joint Budget Oversight Committee for BEIP grants from FY 2004 to FY 2007.

In 2003, the New Jersey Policy Perspective issued report entitled "Taking Care of Business: Does it Cost Too Much?" The report suggested that the BEIP program gives grants to companies that create jobs in one location while cutting jobs in another location. The report further analyzed BEIP's effectiveness and provided recommendations. In response, the State Treasurer asked Rutgers University's Edward Bloustein School of Policy and Planning to evaluate BEIP and to determine if the NJPP's report was valid, and to make further necessary recommendations. The report entitled "An Assessment of the NJ Business Employment Incentive Programs" submitted July 2004, made a number of recommendations concerning operational protocols, public access and accountability, financing and modernization.

Question: a) Please detail the Rutgers University report recommendations, which have been adopted for the BEIP Program. b) How will these modifications alter program operations in the future?

The following changes apply to all companies approved for BEIP grants after October 12, 2004 and were made in response to the recommendations issued in the Rutgers Report as well as after the completion of a thorough analysis conducted internally by the EDA.

1. Net Increase in Jobs - Statewide Compliance

All companies and any of their subsidiaries eligible under the grant agreement must maintain at least 80% of their statewide base employment number indicated at the time of approval throughout the Commitment Duration upon the following conditions:

a. If a company falls below 80% of their statewide base employment number during the Commitment Duration, they will be allowed 2 calendar years to achieve at least 80% of base employment again. Failure to do so will result in termination of the grant at the end of the 2-year period and recapture of the applicable Performance Based Adjustment as defined herein. The Authority will have the discretion, by Board approval only, to extend the 2 year period by one year if the company has experienced positive job growth in the 2 year period.

b. No grant payments will be disbursed during the 2-year period; however, there will be no other penalties

c. No change in the maturity date of the grant term.
d. The Authority will apply any job creation above the New Employment Commitment at the approved project site, against any job losses overall in the State of New Jersey when computing whether the company has fallen below the 80% requirement.

2. New Employment Commitment Cap

The annual BEIP grant payments will be capped at the dollar amount equal to 20% above the original New Employment Commitment (NEC), adjusted annually by the Consumer Price Index (CPI) (i.e. original dollar value of commitment is $1 million, company is eligible for $1.2 million adjusted by CPI). Companies with 100 employees or less at the time of approval are exempt from the cap. In addition, the cap may be lifted, at EDA's discretion, for the following situations:

a. companies making significant leasehold improvements or renovations to accommodate additional growth at the approved project site.
b. manufacturing companies making a significant capital investment such as investment in a new product line or model or evidence there is a planned significant increase in production from existing equipment (i.e. higher utilization rates).

<u>THE FOLLOWING CHANGES APPLY TO ALL GRANT RECIPIENTS</u>

PERFORMANCE BASED ADJUSTMENTS (PBA)

The Grant Agreement executed by all companies in the program allows the EDA to withhold, reduce or terminate payment of a grant or any portion thereof due to a business in the Event of a Default. The EDA will follow the guidelines listed below to determine the amount of the grant, if any that will be recaptured in the Event of a Default.

1. Full PBA

The Authority will recapture the full amount of grant proceeds previously disbursed to the company in the following situations:

a. The company moves out of New Jersey or moves the employees at the approved project site out of New Jersey.

b. The company is sold to another related or unrelated company (the buyer will not assume the grant obligation) and moves out of New Jersey

2. Sliding Scale PBA

[Sliding Scale equal to the percentage of time the company committed to the site. Example: Recipient received an 80% grant for 10 years (15 year commitment duration). Received $450,000 over 7 years (46% of commitment duration). $450,000 x 46% = $207,000. $450,000 - $207,000 = $243,000 recaptured from Recipient]

The EDA will recapture a portion of the grant proceeds previously disbursed to the company in the following situations:

a. The company fails to maintain at least the Minimum Eligibility Threshold (or 80% of statewide compliance base employment as discussed above) for more than 2 consecutive years for business reasons such as an economic downturn in the industry or a shut down of a portion of its operations

b. The company fails to provide Annual Progress Reports, does not respond to inquiries however has not moved from the State

c. The company closes the project facility and lays off the employees or moves some employees to another location in New Jersey and lays off the rest at the project site

d. The company is sold to another related or unrelated company, stays in New Jersey however requests to discontinue the grant

3. No PBA

The Authority will not recapture previously disbursed grant proceeds if a company goes out of business, has no assets and is no longer operating.

4. Withhold Grant Payments

The Authority will withhold grant payments in the following situations:

a. Any grant payments pending certification or certified by the Division of Taxation and not yet disbursed to companies that are in default under the agreement will be withheld until the default is cured. If the default is not cured within the specified time period pursuant to the Grant Agreement, the grant payment will be forfeited.

b. The company has some job losses due to an economic downturn or attrition and has fallen below the Minimum Eligibility Threshold (MET), however, is able to rebound within 2 consecutive calendar years. Grant payments would then resume in the year the rebound occurred. The grant maturity date remains the same.

5. Grant Award Percentage Adjustments

The EDA will adjust the grant award percentage in the following situations.

a. The company has job losses and has fallen below the New Employment Commitment (NEC), however, has remained above the MET. The EDA will re-score the company based on what the company actually achieved pursuant to the formula evaluation and reduce the award percentage accordingly.

b. The company creates jobs above the NEC. The award percentage will be adjusted upwards for job creation above the NEC based on the formula evaluation. However, for companies approved after October 12, 2004, all upwards adjustments are subject to a 20% cap on job creation above the NEC as defined below.

Question: How will these modifications alter program operations in the future?

With these modifications in place, the EDA now has very clear guidelines regarding its ability to recapture BEIP disbursed funds should a BEIP recipient default on the grant agreement.

The EDA, via statute and regulation, has maintained the ability to recapture funds from defaulted projects since the inception of the program. However, with these new modifications in place, the various situations that would trigger recapture proceedings are each addressed appropriately based on the reason for the default. For example, a company that moves from New Jersey after receiving BEIP disbursements is treated differently than a company that goes out of business and is no longer operating. Varying situations leading to default require different recourse of recapture.

In relation to how the modifications will alter the program in the future, the EDA is now required to track more information, such as the employment levels of non-eligible employees in order to make sure the BEIP companies maintain at least 80% of their pre-grant employment statewide. In addition, EDA now tracks the employment growth above the New Employment Commitment (NEC) to ensure the 20% cap is instituted.

By tracking additional information, the EDA can more efficiently manage the program over the long-term as there now exist more clearly defined and more easily definable employment goals.

The Rutgers study also recommended that the public have increased accessibility to and information about BEIP. As a result, EDA now posts information on its website on executed BEIP projects. The information posted, includes: name of the project; approval and execution dates; term of the grant; BEIP award percentage; estimated job creation at the time of the approval; actual job creation to date; the estimated amount of the grant over the term; actual amount of the grant disbursed to date; location of the project site; originating city or state, and the project type (relocation or expansion).

This information, which is updated monthly, can be accessed at http://www.njeda.com/beip_activity.asp

2) The New Jersey Office of the State Auditor conducted an audit of the New Jersey Commerce and Economic Growth Commission for FY 2004. The State audit, released in September 2004, concluded that the Commission did not have an adequate system of controls and that financial documentation and procedures were lacking. As a result of the audit's findings, Executive Order No. 132 was implemented, which among other things, creates the position of Chief Financial Officer, and establishes review procedures for the Commission's contracts and fiscal operations by the Finance and Audit Committees.

Question: Please explain how the Commission has responded to the State Auditor's findings and recommendations to date. In addition, please describe the Commission's progress thus far in establishing internal controls. What role has the new CFO played in ensuring the Commission's fiscal integrity? Have the Finance and Audit Committees established an active oversight function?

Pursuant to the audit report, the Commerce Commission's financial operations were restructured with the establishment of the position of Chief Financial Officer and the hiring of a new Controller. Immediate action was taken to proactively re-establish public confidence in the agency; ensuring the quality and integrity of financial operations was paramount. The Chief Financial Officer is responsible for the oversight of all budget, procurement, accounting, internal controls and fiscal administration functions of the Commission. These activities have been centralized and are under immediate control and direction of the Chief Financial Officer.

The need to maintain strict internal controls and fiscal practices was formalized through Executive Order No. 132, and more recently through Senate bill S2186. The Chief Financial Officer has addressed each of the audit findings and has taken the appropriate corrective action for each finding.

The Audit Committee has been actively working with the CFO. The Committee has written an RFP for a new contract with an independent certified public accounting firm to assist with the semi-annual internal review mandated by Executive Order No. 132. The Committee has expressed its plan to focus on the area of internal controls. The entire Board of Directors reviews and approves all contracts over the public bidding threshold, $27,600 and receives monthly reports for all expenditures less than $27,600. The Finance Committee meets quarterly to thoroughly review all contracts over the public bidding threshold.

3) Reorganization Plan No. 005-2004, issued on October 18, 2004, redesignated the NJ Commerce and Economic Growth Commission as the NJ Commerce, Economic Growth and Tourism Commission. The redesignation and mission in the reorganization plan charged the Commission with improving the profile of the State's tourism industry and increase New Jersey's standing as a travel destination.

Question: Please indicate how the newly redesignated Commission has altered its focus to tourism interests. Do the new tourism goals affect staff levels or constitute staff redistribution between other offices to tourism? What are the Commission's goals for tourism for FY 2006?

I recognize that travel and tourism is an important segment of the Garden State economy. We added tourism to our official commission name -- the New Jersey Commerce, Economic Growth & Tourism Commission. But, it's not just window dressing.

We are integrating the work of the Office of Travel & Tourism into everything we do at Commerce, not just through promotional programs because tourism is about many industries and businesses.

We also have established a working group that looks across state government for ways to make it easier for this critical part of our economy to create jobs and revenue for the state.

Under my direction, new teams were set up within Commerce to better support the Office of Travel & Tourism. The Office now works directly along side the Marketing Department as well as the Communications Department to improve the marketing and public relations efforts that are completed. In addition, I have also set up a hospitality sector in our Business and Economic and Development department to address the tourism industry on a business attraction and retention level.

<u>Goals for FY 2006</u>
We will continue with the short-term plans for tourism but for the first time in many years, long-term marketing and public relations planning will be completed during fiscal year 2006 in order to better promote New Jersey as a destination and to increase awareness of our new branding campaign. This is critical for increasing visits and most importantly overnight stays.

We will continue with our state departmental working groups to look for new ways to make it possible for the tourism industry to succeed with it's mission in the Travel Master Plan. We will work to make improvements and grow our STAR Program. (Student Tourism Assistance Representative program).

4) The Governor's Budget recommends that of the $12.76 million for Advertising and Promotion, $30,000 be allocated to each of the six Regional Tourism Councils for regional tourism promotion. For FY 2005, Regional Tourism Councils received a Grants-In-Aid appropriation of $50,000 each. The Commission has indicated that it intends to phase out the $50,000 allocation in order to challenge the Council's to enhance their effectiveness through improved marketing and business plans. Instead, the Commission has proposed to match 4 to 1 the dollars the Councils raise through membership and other methods, up to $200,000 each, using hotel occupancy tax revenues. Press reports have stated that the Regional Tourism Councils have until May 6 to submit their business and marketing plans for the Commission.

Question: a) Please provide details of the proposed new funding plan for Regional Tourism Councils. b) Please outline the accomplishments of the Councils to date and indicate the direction in which the Commission expects the Councils to proceed in the future to promote tourism in New Jersey. c) Explain how the proposed increase in matching funds will make the Councils more effective.

a) Currently, each regional council receives annual funding of $50,000 from the hotel tax allocation that the Commission receives to market Travel and Tourism. To empower the regions and provide opportunities for growth in their programs, a new program has been developed where each region can request additional funding in sums up to $200,000 for the purposes of marketing and communications.

In order to quality for this funding, each region would need to submit to the Commission:

- A formal marketing plan and formal business plans reviewed and approved by the Commission
- Illustrate the effectiveness of their programs at the end of the fiscal year. Meet the matching fund requirement of 25% (from non-state sources)

  The current grant of $50,000 that is allocated to each region does not qualify as matching funds Long-Term Funding for Regions

  This proposal offers a significant increase in funding that each region receives and empowers them to better promote their region and their members. So as not to disrupt their current programs and allow each region the time to develop new programs, the following is the funding formula from the hotel tax for the next 4 years:

Fiscal Year	Allocation from Hotel Tax	Available Funding From Regional Program	Total State Funding Available
2005	**$50,000**	**$200,000**	**$250,000**
2006	**$30,000**	**$200,000**	**$230,000**
2007	**$15,000**	**$200,000**	**$215,000**
2008	**-0**	**$200,000**	**$200,000**

b) When the Councils were originally formed, they were designed to provide an organization by which the diverse entities of the tourism industry could work together for the common goals of the Tourism Master Plan. The councils offer solid networking opportunities to their membership, brochure fulfillment services, and a source of information for our travel guides. However, as currently organized, the majority of the regional councils are not poised to compete with destination marketing organizations and Convention and Visitors Bureaus functioning within the state.

The Delaware River Region is a prime example of a regional council that has become a formal marketing organization working to promote its region. In fact, they have been very successful in increasing awareness of the counties they represent, improving their non-state funding sources, improving their marketing and public relations programs and most importantly, increasing visitors to the region. It is the Commission's hope that the remaining five (5) regions are able to achieve these same goals for their respective regions with the additional funding that will be made available to them.

c) Due to their small budgets, the large majority of the regions are unable to effectively market themselves. The increased funding will provide the regions with a more stable source of marketing dollars, which in turn will allow them to increase awareness of their region and should naturally increase visitors as well. As a result, more members would come forward to support their efforts, as they will gain individually from these marketing programs.

5) Of the Commission's $18.1 million recommended budget, approximately $17.6 million would be earmarked for specific purposes through language (page D-401), leaving a balance of approximately $500,000 to be allocated at the Commission's discretion. This level of discretionary funding is $1.75 million less than discretionary funding authorized in FY 2005. However, the Administration has stated that it intends to ask the Legislature to restore the reduction.

Question: Please list the programs and amounts the Commission plans to fund in FY 2006 out of its unrestricted funds, i.e., the $2.2 million not specifically allocated by budget language if the $1.75 million in discretionary funding were to be restored. In addition, please provide the same information concerning unrestricted funds for FY 2005. Please describe the impact upon the Commission's programs and operations if the $1.75 million in unrestricted funding is not restored.

A technical error was made during the budget preparation and the amount was not included in the requested and recommended budget figures, which appear on page D-400 of the Budget. With regard as to how the $2.2 million of unrestricted funds are spent, the breakdown is as follows:

FY 05
$273,000 Business Marketing
$303,000 Business Services
$510,000 International Trade & Protocol
$612,000 CFO, Plant Mgmt, & MIS
$531,000 Executive Office
$7,000 NJ Israel Commission

FY 06
$273,000 Business Marketing
$303,000 Business Services
$510,000 International Trade & Protocol
$602,000 CFO, Plant Mgmt, & MIS
$531,000 Executive Office
$7,000 Israel Commission

Without this unrestricted funding, the Commission would not be able to continue day to day administrative operations, would be forced to eliminate business marketing, cut down on international trade initiatives related to exporting and foreign direct investment, close its call center and discontinue services to small, minority and women businesses.

6) The Commission has worked with international businesses to increase trade with New Jersey. A key element in this strategy has been trade and investment missions to Africa, Europe and Asia. According to the Commission, these missions have been highly successful in generating export sales and developing long-term business ties with key officials from the public and private sectors in those destinations.

Question: Please provide a list of all current trade missions and the level of funding for each. Please list the value of New Jersey exports to each of the countries involved. How have past trade missions influenced the level of exports? What are the expected missions and level of funding for trade mission offices in FY 2006?

We cannot speak about past trade missions or the regions/countries the former Secretary chose, but if and when the State's fiscal situation allows for participation in trade missions, destinations will be selected on their economic and commercial value to NJ business. Trade missions are excellent opportunities and "door-openers" for NJ companies seeking business in a new strategic market. The countries and/or regions are chosen for their commercial merit and should be strategic in that they present opportunities for companies in specific industry sectors where New Jersey has strength (i.e. – life sciences, pharma, medical devices, telecommunications, energy, food processing, and other targeted manufacturing sectors). The markets should also present timely opportunities. An example of a "timely" opportunity is the recent signing of a recent Free Trade Agreement (FTA) with the U.S., a specific political opportunity such as new procurement by a government for specific products and/or services, or the enlargement of a trading block, such as the new enlargement of the European Union to 25 Member States. Selecting a trade mission destination is comprehensive process that is strategic, academic and commercial.

The Commerce Commission lacked a well-defined, cohesive, streamlined approach to international business, trade, commerce and protocol. In the new era of governance, we needed to refine the Office's mission and goals to adapt to fit the needs of the business community. We needed to pursue a new approach to serve the state's business and international community that is based on enhancing and adapting successful methods used in the past, while shedding inefficient programs and services that proved unsuccessful and demonstrated mismanagement of resources.

Secretary Bauer has enhanced and rebuilt many of our programs, one in particular is international trade and she has brought the program' s focus back to the core and only endeavor… effectively serving the NJ business community to create, expand and retain jobs in New Jersey. The Office of International Trade and Protocol provides a one-stop assistance program for New Jersey companies interested in expanding their business to the international market. The Office promotes New Jersey products and services by identifying regional world markets and industry sectors for their export potential. The Office's three main responsibilities are: promoting New Jersey's exports; attracting new foreign direct investment; and building and maintaining relationships with the foreign diplomatic, governmental and business communities - all with the goal of economic development. The Office has already had many successes, with measurable results and has organized over 15 international economic development events, seminars and conferences for the New Jersey business community, to be complete by June 30, 2005. The Office's focus and strategy centers upon sound business and economic principles to proactively work with the State's top international trade partner countries, assist and develop small businesses and manufacturing in New Jersey, bring new investment into the state from overseas businesses, promote targeted key industry sectors, and secure tangible business results and leads for New Jersey's companies.

During FY 2005, the Office of International Trade & Protocol organized and participated in over 105 events, most of which were international trade conferences, informational seminars, and business roundtables, bringing direct sales and opportunities to New Jersey companies. The organization and direct sponsorship of local international trade conferences and events has been a new strategy employed under Secretary Bauer, aimed to bring opportunities to small and medium-size businesses that may not otherwise be able to travel abroad to capture sales in new markets. The Office directly engaged in several strategic trade/catalog shows, sponsored by the United States Department of Commerce. Trade/catalog shows allowed New Jersey companies to be represented overseas by Commerce staff, including the foreign trade offices. The office also assisted in recruiting New Jersey companies for; and assisting in organizing trade missions led by other organizations and the U.S. government, but had no staff travel on those trade missions due to the current travel ban. Through these events, the office has assisted hundreds of New Jersey companies in identifying, negotiating, and ultimately selling New Jersey goods and professional services abroad.

In FY2005, the Commission did not lead or participate in any trade missions overseas. The Commission does, however, continue to support, co-organize and promote trade missions lead by other organizations and the U.S. Department of Commerce.

In FY2005, under the leadership of Secretary Bauer, no member of the Office of International Trade & Protocol traveled overseas except for one employee that participated in a Catalogue Show in Asia, which was organized by the U.S. Department of Commerce. The only reason that the employee traveled to represent NJ companies during the show is that the State's participation was already paid for before Secretary Bauer assumed leadership. The Catalog/Trade Show, entitled "New Product USA 2004 Catalogue Exhibition", was held in China, Hong Kong, Taiwan, & Malaysia from 9/10-24/2004. The Office organized and managed the State of New Jersey Trade Booth at the New Product USA 2004 Catalogue Exhibition in all four locations. 16 NJ entities participated with their catalogs, and the Office promoted their products at the shows. As a result, 641 trade leads (mostly candidates for distributors and resellers in these foreign countries) were identified and shared with the companies. There is still follow-up being conducted to ensure that the office is serving the participating NJ companies.

International trade promotional events allow New Jersey companies to explore new markets, identify new business opportunities, and secure distributors, agents and partners in strategic foreign markets. Throughout the year, the Office of International Trade & Protocol organizes and sponsors international trade missions, trade shows and catalog shows in key overseas markets, where international business opportunities for New Jersey companies are greatest. The Office also organizes and sponsors international trade seminars and conferences. Through linkages with foreign nations, New Jersey is host to several incoming international trade and business delegations from every corner of the world. Outbound trade missions open doors quickly for businesses, however they must have a well-defined end goal and must bring successful economic leads/results in markets that are deemed strategic for economic opportunities.

For FY2006, there have been no trade mission itineraries or budgets finalized. Our goal under Secretary Bauer's leadership was to get the office back to serving the business community and listen to the members of corporate New Jersey to gather their needs, as well. We would like to, however, have the Secretary and/or Governor lead a trade mission from our state to a key market overseas. The goals of such a mission would be to both promote NJ's exports and attract new investment in the state. Attracting new foreign direct investment is another key element to trade missions. We are currently in the process of accessing the economic and commercial value of such destinations for some of our key industry sectors. Some of the countries we are currently examining are:

- Canada, our #1 trading partner that represented a destination for $4.2 billion of exports from our state in 2004;
- China (Mainland and Taiwan), our #9 and #12 trading partners, combined representing a destination for $1.1 billion of exports from our state in 2004; and
- A select destination in the European Union (25 member states), New Jersey's combined overall top export destination and top source of foreign direct investment. For example, the United Kingdom, our #2 trading partner represented a destination for $1.8 billion of exports from our state in 2004.

7) The "Business Retention and Relocation Act," P.L. 2004, c.65, renamed the Business Relocation Assistance Grant Program as the Business Retention and Relocation Assistance Grant (BRRAG). The legislation changes the program form a grant to a tax credit program. The BRRAG Program creates a program of corporation business tax credits and insurance premium tax credits to businesses that relocate to or, under certain circumstances, remain in the State. To qualify for this program, a business is required to enter into a project agreement with the Secretary of the Commission to undertake a project to relocate a minimum of 250 retained full-time jobs from one or more locations in the State, and retain those jobs for five years. The legislation caps the tax credits that can be issued at $20 million per fiscal year. According to a press release dated February 2, 2005, three companies received approval from the New Jersey Commerce Commission Board for grants under the BRRAG Program.

Question: How will the changes to the BRRAG Program impact the number of jobs that will be created in New Jersey? How many BRRAG grants were awarded in FY 2005? Please provide a summary of each grant agreement and the amount of each grant funded, as well as the number of jobs these grant recipients are expected to create and retain. What are the program's goals for FY 2006?

Since becoming law in June 2004, Business Retention and Relocation Assistance Act (the Act) has retained 9,496 jobs stretching across the pharmaceutical, financial services, telecommunications, and manufacturing industries. In making the decision to stay in New Jersey, several of these projects are also adding new jobs to the project site. When the retained jobs are combined with the new jobs attracted under the Business Employment Incentive Program (BEIP), jobs totals soar to 13,626.

Interest in the "old" BRRAG was minimal since the program was one-dimensional and only provided $200 per job retained. The recent revisions to the Act created a multi-dimensional package containing three business retention programs. They are the Business Retention and relocation Assistance Grant, the Sales and Use Tax Exemption Program, and Energy Sales Tax Exemption Program. To date, ten companies have been awarded program benefits under the Act with several more applications pending and on going dialogue with still several more. A summary of approved projects follows:

BRRAG and STX Programs

- BASF – 1,011 jobs retained through the Sales and Use Tax Exemption Program (STX).
- Cadbury Adams – 269 jobs retained through the STX Program. $8.3 million planned in capital improvements.

- Celgene – 342 jobs retained through both the BRRAG and STX Programs. An additional 98 jobs will be created under a BEIP grant. $9.8 million in capital improvements planned.
- Citigroup – 943 jobs retained through both BRRAG and STX with $113 million in capital improvements planned. An additional 2,277 will be new jobs attracted with a BEIP grant.
- Novartis – 729 jobs retained with the STX program and BRRAG application pending. $47.6 million in capital improvements planned.
- Pfizer – 2070 jobs retained under the STX Program. A BRRAG application is expected soon. $491 million in capital improvements are planned.
- Verizon – 1800 jobs retained with the STX and BRRAG programs. An additional 1755 jobs will be attracted under a BEIP grant. $180 million in capital improvements are planned.

<u>Energy Sales Tax Exemption Program</u>
- The Glass Group – 704 jobs retained
- Alcan Global Pharmaceutical Packaging – 732 jobs retained
- Durand Glass - 896 jobs retained

With respect to program benefits and/or grant amounts, Under the BRRAG Program each job retained is eligible for a tax credit of up to $1,500. Under the STX Program, "eligible property" purchases receive an exemption from sales tax. As such, programmatic benefits under the STX program will depend on total "eligible purchases." Applicants are required to execute a Project Agreement (contract) which, among other things, tracks purchases on a quarterly basis and the Project Agreement requires the applicant to maintain the jobs for at least a five year period.

The Commission is presently evaluating program interest and current performance in an effort to extrapolate a job retention target for Fiscal-Year 2006.

8) Prosperity New Jersey (PNJ) was created by Executive Order in 1995 to serve as a public/private partnership to help foster, promote and strengthen economic activity, job creation and the overall business climate in New Jersey. In its initial budget year, FY 1996, PNJ received a $1.5 million appropriation. Even as appropriations were provided in subsequent fiscal years, the prior Administration was encouraging PNJ to gradually become self-supporting through private sector contributions. PNJ's $522,000 State appropriation for FY 2005 is thus far unspent and earmarked to be lapsed in full as part of the Governor's budget plan. In addition, the proposed budget eliminates State funding for PNJ in FY 2006.

Question: a) Please provide information concerning the impact, which the activities and programs provided by PNJ have had on the State to date. b) With the elimination of State funding for PNJ, does PNJ plan to operate self-sufficiently in FY 2006 utilizing private sector contributions? c) Is the elimination of State funding expected to affect staffing levels? d) What are PNJ's goals for FY 2006?

a) Prosperity New Jersey is a nonprofit organization that brings together the leading stakeholders in New Jersey's business, government and education communities to foster key state economic policy goals. The organization's Board of Trustees is chaired by William C. Weldon, Chairman and CEO of Johnson & Johnson, Dr. Shirley M. Tilghman, President of Princeton University, and Virginia S. Bauer, CEO & Secretary of the New Jersey Commerce Economic Growth & Tourism Commission

Prosperity New Jersey's mission is closely aligned with the state's economic needs. Currently the organization focuses on three main goals: to leverage New Jersey's dominance in the life science industry by implementing an action agenda set forth in a 2003 study that the organization commissioned by Dr. Michael E. Porter of Harvard Business School; to move New Jersey toward becoming the premier employee-supply state by setting up business-education partnerships with New Jersey high schools and large New Jersey companies through the organization's Project STEP UP program; and to empower the state's woman and minority business communities through the Governor's Project on Entrepreneurship.

Prosperity New Jersey's ongoing New Jersey Life Science Super-Cluster Initiative is succeeding in focusing the attention of state government on the critical need to collaborate with stakeholders in business, education and government to maintain the competitiveness of the state's life science industry. In 2003, Prosperity New Jersey commissioned a groundbreaking study with Professor Michael E. Porter of the Harvard Business School of the state's life science industry, which culminated in an action agenda for New Jersey to pursue. Prosperity New Jersey's work has succeeded in igniting impressive activity and cooperation across key communities.

Examples of successful program activities include the following:

Prosperity New Jersey helped establish the New Jersey Nanotechnology Consortium, which saved Bell Labs' world-class nanofabrication lab in Murray Hill and preserved New Jersey's role as a major player in the emerging field of nanotechnology. The Consortium was established with $4 million in state and federal funds. Nanotechnology is a process that works at the smallest scientific scale with applications in medicine, pharmaceuticals and agriculture.

Prosperity New Jersey worked closely with the New Jersey Biotechnology Life Science Coalition, a nonprofit organization that promotes New Jersey as a key business and scientific research venue for life science and biotech companies, to underwrite the first-ever New Jersey Pavilion at BIO 2004 San Francisco, the world's largest gathering of key players in the life science industry. Prosperity New Jersey is a founding member of the coalition.

Prosperity New Jersey underwrote a study that explored the possibility of building a Bio-Life Science Center on Raritan Valley Community College's sprawling North Branch campus. The project, if found viable, includes the long-term goal of constructing a high school on the college's 240-acre campus that will help prepare students for a career in the state's life science industry through college level work during their junior and senior years.

b) The corporation will run out of money in the fourth quarter of Fiscal Year 2006. When Prosperity New Jersey created, it was intended to eventually rely on funding from non-governmental sources, including corporate funds. Given the State's current budget climate, beginning in Fiscal Year 2006, Prosperity will attempt to offset the loss of State appropriations with a committed effort to attract additional private funding.

c) Yes. Prosperity New Jersey immediately reduced its full-time staff from five to three (a part-time intern was also discharged), eliminating an administrative support staff member and its Director of Education Initiatives. As indicated above, throughout Fiscal Year 2006, Prosperity will focus its attention on attracting additional private funding to offset the loss of State appropriations.

d) In addition to focusing on attracting private funding, in Fiscal Year 2006, Prosperity New Jersey has planned to establish more Project STEP UP partnerships. In addition, through the Governor's Project on Entrepreneurship, the organization would like to extend its work beyond women to reach other segments of the small business community, including minorities. Much work remains to be done on the New Jersey Life Science Super-Cluster Initiative, including the support of BIO 2005 Philadelphia.

9) The NJ Commission on Science and Technology was established pursuant to P.L. 1995, c.102. The Commission was established to encourage the development of scientific and technological programs, stimulate academic-industrial collaboration and coordinate the activities of technological centers and business activities. The Governor's budget recommends $8.0 million for the Commission, an $800,000 decrease from the $8.8 million FY 2005 appropriation. This decrease includes a reduction of $600,000 for the Manufacturing Extension Program, which was allocated $1.6 million in FY 2005. However, the budget estimates that the Commission will assist 250 firms in FY 2006 as a result of the Extension Program, 140 more firms than the program assisted in FY 2004.

Question: Please detail the Commission's accomplishments in FY 2005 including: the number of companies supported and assisted through funding incentives. What are the Commission's goals for FY 2006? In addition, please indicate the impact of the Manufacturing Extension Program in assisting businesses to maintain and increase manufacturing.

The Commission in FY 2005 gained several new members, including Medarex CEO Don Drakeman as the new chairman. These members bring a unique perspective and professional expertise to the commission. Based on their recommendations, the Commission in FY 2005 targeted investments toward:

- Increased business assistance programs
- Renewed emphasis on commercialization of university intellectual property
- Targeted, expanded services for entrepreneurs

<u>Programs launched in FY 2005</u>

- New Jersey Technology Fellowships

  A $500,000 fellowship program to provide salaries to selected post-doctoral graduates of New Jersey universities hired by New Jersey technology-based companies. The Fellowship Program will retain talent in New Jersey, support participating companies and build collaboration between universities and industry leading to improved technology transfer to the New Jersey marketplace.
- Commercializing University IP Program

  A $1 million competitive grant program to enable New Jersey research universities to more effectively and efficiently promote business creation in New Jersey and licensing of intellectual property to New Jersey companies. This program replaces the previous R&D Excellence program, which offered partial funding for individual research projects.
- Technology Incubators

  A $1 million grant program in FY 05 – double the last year's investment in incubators – to support tenant start-up technology firms. Unlike previous support, which was routinely awarded for operation expenses, these grants require prior Commission approval and are earmarked for innovative programming and enhanced services tailored to support the needs of new tech company tenants.

- Small Business Innovation Research (SBIR) Assistance
  - Bridge Grants
    A $700,000 grant program providing crucial operating funds to early-stage high-tech firms struggling to bridge the gap between their receipt of a federal Phase I SBIR grant for promising research and award of a Phase II grant for commercialization. Firms qualify for up to $50,000.
  - SBIR Training Program
    Statewide comprehensive training sessions for firms seeking federal contracts through the SBIR program with the goal of bringing more federal dollars to New Jersey. SBIR grants finance high-risk basic research and proof-of-concept analysis.

  - Volunteer Network
    Business experts who have successfully commercialized technology and obtained SBIR funding will review SBIR applications before they are submitted to federal agencies.
- BIO2005
  The Commission has taken an active role in showcasing New Jersey's technology-based industry at BIO 2005, the world's largest gathering of biotechnology executives. The conference, to be held in June in Philadelphia, draws more than 20,000 life sciences professionals, including more than 5,000 international participants representing more than 60 countries. Support from the Commission enabled New Jersey to be an official BIO2005 sponsor and host.
- Industry Review and Dialogue
  The Commission is responding to recommendations from both the tech and research-based industry associations and the Jobs Growth Commission to analyze industry trends and provide opportunities for industry to work with policymakers to keep New Jersey competitive and attractive for future growth.

The Commission will accelerate New Jersey's economic growth by promoting innovation and by helping scientists and entrepreneurs convert that innovation into commercial products.

- Support translational research
- Promote technology transfer
- Nurture entrepreneurial enterprises

Our Mission is to encourage economic development and job growth in New Jersey by:

- promoting strong ties between industry and universities in order to accelerate commercialization of technology
- supporting entrepreneurial technology businesses in areas of strategic importance to the state and
- strengthening research collaborations among universities to create new potential for increased federal funding and private investment.

Impact of NJMEP

The New Jersey Manufacturing Extension Program Inc. (NJ MEP) was reviewed as part of the 2004 New Jersey Commission on Science and Technology (NJCST) evaluation of all NJCST funded programs. The 2004 review focused on the extent that NJ MEP supports the mission of NJCST, which is to grow high tech jobs by enhancing collaboration and supporting commercialization of new high tech businesses. With funding in FY 04 of $1 Million, NJ MEP is currently the highest funded NJCST program.

NJ MEP provides consulting support in “new technologies, best management practices and basic business problem resolution” to approximately 100 small and medium size New Jersey manufacturers annually. It has been operating in New Jersey for more than eight years. Similar to MEP in other states, the New Jersey program is subsidized by federal and state funds and revenues from consulting services.

In 2005, the Commission broadened NJ MEP’s charter to include working with technology start-ups. NJ MEP is now assisting entrepreneurs in incubators throughout New Jersey to develop viable manufacturing and distribution strategies. By helping start-ups demonstrate that their products can be manufactured at margins and volumes anticipated, NJ MEP will help these companies become more attractive to investors.

10) The Commission recently decided to reduce funding for the NJ Small Business Development Centers' Technology Commercialization Center from $100,000 in 2004 to $30,000 in 2005, a reduction of $70,000. The Technology Commercialization Center (Center), assisted entrepreneurs in preparing federal grant proposals and provided guidance, information and referrals for developing and commercializing new technologies and building science and technology based businesses. The Commission redirected the $70,000 for cash grants to entrepreneurs.

Question: Please indicate whether the Commission intends to provide assistance and coaching for entrepreneurs seeking grant assistance. In addition, please detail the rationale behind this shift in funding. How is the $70,000 better suited for entrepreneurial needs?

In 2002, the Federal Government awarded New Jersey $100,000 for the NJ Federal and State Technology Program (NJ FAST) to train small businesses seeking funding through the SBIR grant program. At that time, the Commission matched the federal funding with an additional $100,000 in state funds. The NJ FAST Program did not receive any Federal funding in subsequent years and FAST funding is no longer included in the federal budget, yet the Commission continued to support NJ FAST at the $100,000 level through 2004.

In 2004, the NJ FAST program was reviewed, along with all Commission programs. Based on this review, Commission members made several changes in existing programs, including increasing the Commission's investment in small businesses applying for SBIR and STTR grants from $100,000 to $700,000. The increased funding was used to create an SBIR Bridge Grant program to provide direct financial support for emerging technology-based companies, with additional funds for providing training for those seeking SBIR and STTR grants at conferences held throughout the year.

The purpose of the SBIR Bridge Grant program is to increase the success and maximize the growth of small New Jersey companies while moving from Phase I to Phase II by awarding $50,000 grants to entrepreneurs who have both applied for Phase II funding and been identified as potential Phase II SBIR/STTR awardees. This program sustains small businesses through the funding gap occurring between completion of the Phase I grant and the initiation of a Phase II award – a critical time for emerging technology-based firms.

The Commission has also established a Volunteer Network comprised of business experts to review SBIR applications before they are submitted to federal agencies. The Commission invites SBIR applicants to submit draft proposals to the Commission at least a month before the Federal due date for that particular funding agency to allow enough time to make a match with an available volunteer. As SBIR applicants send draft proposals to the Commission, proposals are matched with a volunteer with appropriate expertise. Volunteers are asked to provide feedback and advice on the substance of the proposal for the applicant to use to improve his or her application and to increase the applicant's likelihood of receiving federal funding.